

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

UNCLAS STATE 099259

FOR A. JOSEPH WILLIAMS, JR.

FOLLOWING SENT ACTION SECSTATE WASHDC INFO GUATEMALA SAN JOSE
SAN SALVADOR TEGUCIGALPA FROM MANAGUA 24 APR 75:

QUOTE UNCLAS MANAGUA 1590

E. O. 11652: N/A

TAGS: EAGR, ETRD, NU

SUBJECT: COTTON - NICARAGUAN BANK SCHEME TO GUARANTEE DELIVERY
OF COTTON ON FUTURES CONTRACTS

1. IN 1974, MANY NICARAGUAN COTTON PRODUCERS RENEGED ON
FUTURES CONTRACT WHEN PRICES MOVED SHARPLY UPWARD AND BROKERS
FINALLY HAD TO ASK GON ASSISTANCE TO OBTAIN THE COTTON AT MUCH
HIGHER THAN CONTRACT PRICES. WHILE THIS SITUATION WAS NOT
UNIQUE TO THIS COUNTRY, IT HAS MADE BROKERS RELUCTANT TO
BUY HERE FOR FUTURE DELIVERIES.

2. THE PRESENT SPREAD BETWEEN SPOT PRICES (\$38 CWT) AND
FUTURE PRICES (\$44 TO \$46) FOR NICARAGUAN COTTON HAS LED
GROWERS WITH ONLY PARTIAL SUCCESS TO SEEK BUYERS FOR
FUTURE DELIVERIES. TO MEET THIS IMPASSE, THE MANAGER OF
THE LARGEST PRIVATE BANK IN NICARAGUA, BANCO DE AMERICA,
ERNESTO FERNANDEZ HOLMANN, IS PROPOSING A SCHEME TO BUYERS
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AND GROWERS TO GUARANTEE DELIVERY ON CONTRACTS. THE INTEREST

OF THE BANK IS ITS PROFITABLE FINANCING OF COTTON AND A CONCERN THAT GROWERS WILL CUT BACK ON PLANTINGS IF NOT ASSURED OF REMUNERATIVE PRICES.

3. THE SCHEME IS QUITE SIMPLE. AS GROWERS BORROW FOR THEIR COTTON CROP (HOLMANN SAYS ABOUT 85 PERCENT OF THE COSTS ARE FINANCED) THEY PUT UP COLLATERAL. THE BANK IN AGREEMENT WITH THE GROWER WILL COMMIT ITSELF TO THE BUYER NOT TO RELEASE THE COLLATERAL UNTIL DELIVERY HAS BEEN MADE ON THE CONTRACT. HOLMANN IS PRESENTING THIS PROPOSAL TO THE GROWERS IN A MEETING THIS WEEK. BANK WOULD MAKE TOKEN OR NO CHARGE FOR ITS COMMITMENT.

4. HOLMANN BELIEVES OTHER BANKS FINANCING COTTON WILL BE WILLING TO MAKE SIMILAR COMMITMENTS. HE HAS DISCUSSED IDEA WITH CHASE MANHATTAN BANK IN NEW YORK AND SAYS IT WAS FAVORABLY RECEIVED. SHELTON UNQUOTE KISSINGER

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